

Message Text

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ACTION AID-05

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USDEL JEC PARIS UNN

CINCPAC HONOLULU

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E.O. 11652: N/A DECONTROL JANUARY 11, 1976

TAGS: ECRP, VS

SUBJECT: CERP 0003 - 1974 YEAR-END ECONOMIC OVERVIEW

1. SUMMARY. WHILE 1974 STARTED BADLY, PARTICULARLY WITH THE THREAT POSED BY THE RAPID RISE IN PETROLEUM PRICES, VIET NAM'S ECONOMY CAME THROUGH THE YEAR GRATIFYINGLY WELL, IN LARGE MEASURE BECAUSE THE GVN TOOK THE MEASURES CALLED FOR BY THE SITUATION. NOT ONLY DID PETROLEUM PRICES RISE BUT THE PRICES OF MOST OF VIET NAM'S OTHER IMPORTS CONTINUED UP; EXPORT MARKETS SOFTENED, AND BIG INCREASES IN FOREIGN AID AND INVESTMENT HOPED FOR EARLY IN THE YEAR DID NOT MATERIALIZE. YET THE RATE OF DECLINE IN THE DOMESTIC ECONOMY SEEMS TO HAVE SLOWED; ALTHOUGH INDUSTRIAL OUTPUT (AND EMPLOYMENT) CONTINUED TO DECLINE, AGRICULTURAL OUTPUT WAS CLEARLY UP AS THE FLOW OF PEOPLE AND RESOURCES TO THE COUNTRYSIDE CONTINUED. AFTER ABSORBING THE PETROLEUM PRICE INCREASE IN THE FIRST QUARTER, INFLATION DROPPED TO A SINGLE DIGIT RATE IN THE LAST FOUR MONTHS. FOREIGN EXCHANGE RESERVES, WHICH WERE HEMORRHAGING AS THE YEAR BEGAN, ACTUALLY ENJOYED A LARGE INCREASE. AS THE YEAR ENDED, THE ECONOMY

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STILL HAD UNSOLVED PROBLEMS AND FACED THE PROSPECT OF A DIFFICULT

1975, BUT WAS ON BALANCE STRONGER.

IN 1974, AS IN THE PREVIOUS TWO YEARS, VIET NAM'S PROBLEM WAS ONE OF SHIFTING FROM A HIGHLY IMPORT-DEPENDENT ECONOMY TO PRODUCTION BASED ON LOCAL RAW MATERIALS, BOTH FOR EXPORT AND DOMESTIC USE. BASIC TO THIS PROCESS IS A SHIFT IN RELATIVE PRICES, FAVORING DOMESTIC AS OPPOSED TO IMPORTED GOODS. PRICES OF IMPORTED GOODS DID INDEED RISE FASTER THAN DOMESTIC GOODS IN 1974, HELPED BY A 25 PERCENT DEVALUATION OF THE PIASTER DURING THE COURSE OF THE YEAR, AND THERE WERE NUMEROUS EXAMPLES OF THE NECESSARY RESOURCE SHIFTS TAKING PLACE -- E.G. ARTISAN SUGAR MILLS EXPANDED RAPIDLY AS REFINERS OF IMPORTED RAW SUGAR VIRTUALLY CLOSED DOWN; CHARCOAL AND WOOD REPLACED KEROSENE; AND RICE STRAW WAS SUBSTITUTED FOR PULP IN PAPER-MAKING. EVEN SO, UNDER PREVAILING CONDITIONS OF INTENSIFIED NVA MILITARY ACTIVITIES AND DEPRESSED DEMAND, THE TRANSFER OF RESOURCES SEEMED PAINFULLY SLOW AND THE HUMAN COSTS HIGH, AS COMPARED TO WHAT WOULD HAVE OCCURRED WITH MORE GENEROUS FOREIGN ASSISTANCE.

FOREIGN AID AVAILABILITIES

U.S. ECONOMIC ASSISTANCE WAS ONLY NOMINALLY HIGHER IN FY 1974 THAN IN FY 1973 AS THE PRICES OF VIET NAM'S IMPORTS ROSE ABOUT 50 PERCENT. NEW OBLIGATIONAL AUTHORITY (NOA) FUNDING TOTALED \$346 MILLION AS COMPARED WITH \$323 MILLION THE YEAR BEFORE; IN ADDITION, A \$50 MILLION DEVELOPMENT LOAN WAS APPROVED AT THE OUTSET OF FY 1974. CONGRESS HAD NOT APPROPRIATED NEW FUNDING BY THE END OF CY 1974, SO THAT FOR THE TIME BEING FY 1975 IS ON A CONTINUING RESOLUTION BASIS; I.E., AT THE FY 1974 LEVEL.

PL-480 FUNDING, MEASURED IN TERMS OF CALENDAR YEAR PAYMENTS, WAS \$201 MILLION IN 1974 AS AGAINST \$143 MILLION IN 1973. THE INCREASE WAS ENTIRELY ACCOUNTED FOR BY RICE AT HIGHER WORLD PRICES.

OTHER DONOR AID CONTINUED TO RISE, AND 1974 WAS THE FIRST YEAR IN WHICH OTHER DONOR ASSISTANCE INCLUDED BALANCE OF PAYMENTS FUNDING. ON AN EXPENDITURE BASIS, ALL TYPES OF ASSISTANCE FROM THIRD COUNTRIES AND INTERNATIONAL INSTITUTIONS ROSE FROM \$70 MILLION IN 1973 TO ABOUT \$118 MILLION IN 1974. THE 1974 TOTAL INCLUDED \$20 MILLION OF BALANCE OF PAYMENTS AID FROM JAPAN, FRANCE, AND TAIWAN. IN COMMITMENT TERMS, OTHER DONOR AID ROSE FROM \$109 MILLION IN 1973 TO \$183 MILLION IN 1974.

3. THE IMPACT OF OPEC

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THE APPROXIMATE TRIPLING OF WORLD OIL PRICES IN LATE 1973 AND EARLY 1974 HAD A PROFOUND IMPACT ON THE VIETNAMESE ECONOMY IN 1974. FACED WITH THE PROSPECT OF PAYING UP TO \$200 MILLION IN 1974 FOR THE SAME AMOUNT OF POL COSTING \$80 MILLION IN 1973, THE GVN SET AS ITS GOAL A 25 PERCENT REDUCTION IN CONSUMPTION. POL PRICES, WHICH HAD ALREADY BEEN RAISED BY 36 TO 47 PERCENT IN NOVEMBER 1973, WERE RAISED ANOTHER 66 TO 140 PERCENT ON JANUARY 26, 1974. AT THAT POINT GASOLINE WAS PRICED AT THE EQUIVALENT OF \$1.62 PER GALLON, ONE OF THE HIGHEST

LEVELS IN THE WORLD. KEROSENE, AT 140 PIASTERS/LITER, WAS PRICED OUT OF REACH OF LOWER INCOME FAMILIES, SPURRING A MASS CONVERSION TO WOOD AND CHARCOAL FOR COOKING FUEL. DIESEL FUEL, AT 125 PIASTERS/LITERS, PROVED SO EXPENSIVE AS TO IDLE A LARGE PORTION OF THE COUNTRY'S

MOTORIZED FISHING FLEET, AND THE PRICE HAD TO BE ROLLED BACK TO 95 PIASTERS/LITER IN MARCH. THE HIGH POL PRICES, COMBINED WITH AUSTERITY MEASURES ON ITS USE, MOSTLY IN THE PUBLIC SECTOR, ACCOMPLISHED THE GVN'S IMMEDIATE OBJECTIVE. CONSUMPTION IN 1974 FELL BY 25 PERCENT, DIVIDED ROUGHLY AS FOLLOWS: KEROSENE, 63 PERCENT; GASOLINE, 51 PERCENT; DIESEL, 15 PERCENT; HEAVY FUEL OIL, 10 PERCENT.

WITH THIS AS BACKGROUND, THE ADVERSE EFFECTS OF THE OPED ACTIONS IN 1974 CAN BE SUMMARIZED AS FOLLOWS: (1) THE \$59 MILLION ADDITIONAL SPENT ON POL; (2) THE PRODUCTION AND EXPORT LOSSES CAUSED BY THE REDUCED USAGE OF DIESEL FUEL AND GASOLINE FOR PRODUCTIVE PURPOSES; (3) THE DAMAGE TO THE COMPETITIVE POSITION OF THOSE VIETNAMESE EXPORTERS WHO CONTINUED TO OPERATE DESPITE THE HIGHER PRICES; AND (4) THE FURTHER EXPORT LOSSES ATTRIBUTABLE TO OPEC-INDUCED ECONOMIC DECLINES IN JAPAN AND OTHER COUNTRIES TO WHICH VIET NAM SELLS.

EVEN AT THE REDUCED RATE OF 95 PIASTERS/LITER, DIESEL FUEL IN VIET NAM REMAINS THE MOST EXPENSIVE IN S.E. ASIA, EXCEPTING HONG KONG, DIRECTLY AFFECTING THE COMPETITIVE POSITION OF FISHERMEN, LOGGERS, AND A WIDE VARIETY OF INDUSTRIAL FIRMS. WITH THE ECONOMIES OF JAPAN, HONG KONG, AND OTHER COUNTRIES TO WHICH VIET NAM EXPORTS FORCED TO RETRENCH AS A RESULT OF OPEC-INSPIRED BALANCE OF PAYMENTS DIFFICULTIES, PRICES OF VIET NAM'S MAIN EXPORT COMMODITIES -- SHRIMP, LOGS, AND RUBBER -- FELL SHARPLY DURING THE YEAR ALTHOUGH FOR TH YEAR AS A WHOLE, 1974 EXPORTS EXCEEDED THOSE OF 1973 BY \$15 MILLION.

4. AGRICULTURE, FORESTRY, AND FISHING

A. RICE

RICE OUTPUT, WHICH HAD RISEN 10 PERCENT DURING THE 1973-74 CROP YEAR (ENDED MAY 31, 1974), APPEARED TO BE HEADED FOR A FURTHER LIMITED OFFICIAL USE

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MODEST GAIN IN 1974-75. EARLY INDICATIONS ARE FOR A CURRENT CROP ABOUT 2.5 PERCENT ABOVE LAST YEAR'S PRODUCTION, BRINGING TOTAL OUTPUT TO ABOUT 6.8 MILLION METRIC TONS OF PADDY. THE MAJOR REASON FOR THE INCREASE IN THIS YEAR'S CROP HAS BEEN AN INCREASE IN RICE HECTAREAGE WITH ESTIMATES RUNNING AS HIGH AS 10 PERCENT. THIS FACTOR MORE THAN OFFSETS THE EFFECTS OF ADVERSE WEATHER CONDITIONS IN SOME AREAS AND A DECREASED USE OF FERTILIZER BY THE FARMERS. FERTILIZER USAGE MAY HAVE BEEN AS MUCH AS 30 PERCENT BELOW LAST YEAR'S LEVELS OWING TO THE SOARING WORLD PRICE OF THWJGVOMMODITY. IN SEPTMBER THE GVN IMPLEMENTED A FERTILIZER SUBSIDY THAT SHOULD SERVE TO MAXIMIZE THE FARMER'S USAGE ON NEXT YEAR'S CROP.

IMPORTS OF PL-480 RICE IN 1974 TOTALED 300,500 MT. AFTER LOANING 45,000 MT TO CAMBODIA, THE GVN WAS STILL ABLE TO BUILD UP ITS STOCKS FROM 57,200 MT AT THE END OF 1973 TO 205,000 MT AS OF DECEMBER 31, 1974. AS IMPORTANT FACTOR IN THE STOCK BUILD-UP WAS A

REDUCTION IN DISTRIBUTION OF RICE BY THE N.F.A., FROM 458,000 MT IN 1973 TO 297,000 MT IN 1974, PARTLY BECAUSE THERE WERE FEWER REFUGEES AND PARTLY BECAUSE THE NATIONAL FOOD ADMINISTRATION (NFA) DELIBERATELY MADE PURCHASE OF ITS RICE LESS ATTRACTIVE THAN BUYING IN THE MARKET. ANOTHER FACTOR IN THE STOCK BUILD-UP HAS BEEN A REDUCED RATE

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OF PUBLIC CONSUMPTION. THE RETAIL PRICE OF SOC NAU, THE MOST COMMON DOMESTIC VARIETY, ROSE BY 24 PERCENT DURING 1974, AT THE SAME TIME THAT URBAN UNEMPLOYMENT CONTINUED TO GROW.

THE GVN REMAINED FULLY COMMITTED TO THE GOAL OF SELFSUFFICIENCY IN RICE, BUT IT WILL STILL TAKE BOTH A GOOD DEAL OF LUCK AND SENSIBLE POLICY CHOICES TO ACHIEVE THIS END IN 1975. BOTH THE WEATHER AND THE CONSEQUENCES OF THE NVA OFFENSIVE REMAIN UNCERTAIN. MOREOVER, SOME RATIONALIZING OF CONTROLS ON THE MOVEMENT OF RICE AND PRICING POLICIES THAT PROVIDE GREATER INCENTIVES TO FARMERS AND MERCHANTS MAY BECOME NECESSARY.

B. OTHER CROPS

OTHER CROPS POSTING GOOD PRODUCTION INCREASES IN 1974 INCLUDED SUGAR, CORN, AND PEANUTS. EXPANSION OF SUGAR OUTPUT, UNDER THE IMPETUS OF SOARING WORLD AND DOMESTIC SUGAR PRICES, WAS ESPECIALLY

IMPRESSIVE. TOTAL HECTARAGE IS ESTIMATED TO HAVE RISEN FROM 13,000 IN 1973 TO 20,000 IN 1974, AND ARTISAN MILLS HAVE SPRUNG UP BY THE HUNDREDS. THE COUNTRY CAN BE SAID TO HAVE REACHED SELF-SUFFICIENCY IN CORN, WITH PRODUCTION RISING BY AN ESTIMATED 10 PERCENT IN 1974. RELIABLE DATA WAS NOT AVAILABLE ON PEANUT PRODUCTION, BUT A PRO-LIMITED OFFICIAL USE

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CESSING INDUSTRY IS DEVELOPING AND THE NEED FOR OIL IMPORTS IS DECLINING.

C. FORESTRY

THE FORESTRY INDUSTRY WAS BESET BY AN ARRAY OF PROBLEMS IN 1974: SECURITY RESTRICTIONS, DECLINING WORLD MARKETS FOR LUMBER AND WOOD PRODUCTS, HIGH OPERATING COSTS, AND BUREAUCRATIC OBSTACLES. A NEW PERMIT SYSTEM IMPLEMENTED IN NOVEMBER SEEMS TO HAVE EASED ONE OF THE MAIN BUREAUCRATIC PROBLEMS, BUT THE OTHER DIFFICULTIES WERE, IF ANYTHING, WORSENING AS THE YEAR WENT ON. WITH THE HOUSING INDUSTRY DEPRESSED IN JAPAN AND THE U.S. SALES OF HARDWOOD LOGS WERE VIRTUALLY NIL BY YEAR-END.

PRICES OF PINE LOGS FELL BY NEARLY A THIRD DURING THE YEAR, AND EXPORT SALES DECLINED DRASTICALLY IN THE SECOND HALF OF 1974.

THE FOLLOWING DEPICTS THE TREND OF LOG AND LUMBER EXPORTS DURING 1974:

(\$THOUSANDS)

1974

1973	1ST Q	2ND Q	3RD Q	4TH Q	TOTAL	
LOGS:						
PINE	9,368	1,741	2,064	824	687	5,316
HARDWOOD	2,309	1,403	1,691	357	11	3,462
LUMBER:						
PINE	64	34	68	312	62	476
HARDWOOD	425	173	285	64	10	532
TOTAL	12,166	3,351	4,108	1,557	770	9,786

LOGS:

PINE 9,368 1,741 2,064 824 687 5,316

HARDWOOD 2,309 1,403 1,691 357 11 3,462

LUMBER:

PINE 64 34 68 312 62 476

HARDWOOD 425 173 285 64 10 532

TOTAL 12,166 3,351 4,108 1,557 770 9,786

D. FISHING

THE FISH CATCH IN 1974 WAS REPORTED SLIGHTLY BELOW THAT OF 1973. THE INDUSTRY'S PRINCIPAL DIFFICULTY WAS HIGH OPERATING COSTS. EVEN AFTER THE DIESEL PRICE ROLLBACK IN MARCH, A SIZEABLE PORTION OF THE COUNTRY'S MOTORIZED BOATS EITHER REMAINED IDLE OR OPERATED LESS EXTENSIVELY THAN IN PREVIOUS YEARS. SECURITY-RELATED RESTRICTIONS ON FISHING OPERATIONS CONTINUED TO BE A FACTOR IN LIMITING THE SIZE OF THE CATCH. DECLINING WORLD PRICES FOR FROZEN SHRIMP BROUGHT DECLINING EXPORT EARNINGS IN THE SECOND AND THIRD QUARTERS, BUT THE TREND WAS AGAIN UPWARD -- AT LEAST TEMPORARILY -- IN THE FOURTH QUARTER.

THE FOLLOWING DEPICTS THE TREND OF EXPORTS DURING 1974:

(\$ MILLIONS)

1974

1973	1ST Q	2ND Q	3RD Q	4TH Q	YEAR	
FROZEN SHRIMP						
FROZEN SHRIMP	12.7	6.5	5.8	5.1	7.1	24.5

FROZEN SHRIMP 12.7 6.5 5.8 5.1 7.1 24.5

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OTHER FISH PRODUCTS	1.2	0.8	1.0	1.0	2.1	4.9
TOTAL	13.9	7.3	6.8	6.1	9.2	29.4

5. INDUSTRY

INDUSTRIAL ACTIVITY DECLINED DURING 1974 UNDER THE COMBINED IMPACT OF REDUCED DEMAND AND HIGH OPERATING COSTS. A PRODUCTION INDEX COVERING 10 LOCA INDUSTRIES INDICATED THAT OUTPUT DURING JANUARY - SEPTEMBER WAS 21 PERCENT BELOW THE CORRESPONDING PERIOD OF 1973, AND THERE WAS NO INDICATION OF A RECOVERY BY THE YEAR-END. THE HARDEST HIT INDUSTRIES WERE THOSE CATERING TO RELATIVELY LESS ESSENTIAL CONSUMER NEEDS SUCH AS BEER AND SOFT DRINKS OR THOSE USING A HIGH PROPORTION OF IMPORTED MATERIALS. PRODUCERS OF MORE ESSENTIAL GOODS, SUCH AS CEMENT AND NUOC MAM, WERE DOING BETTER. THE TEXTILE INDUSTRY AS A WHOLE WAS DEPRESSED IN THE FACE OF REDUCED CONSUMER PURCHASING POWER AND LARGE STOCKS IN THE HANDS OF DEALERS.

UNLIKE THE SITUATION IN 1973, INDUSTRIES ORIENTED TOWARD EXPORTS WERE NOT NECESSARILY DOING WELL, OWING TO RECESSIONARY CONDITIONS ABROAD. PRODUCERS OF GLASS PRODUCTS AND PLYWOOD, FOR EXAMPLE, OPERATED AT FAR BELOW CAPACITY LEVELS AND FISHMEAL INDUSTRY COULD SHOW ONLY ONE PLANT OUT OF NINE OPERATING, AND THAT ONE AT A VERY LOW LEVEL. HANDICRAFTS WERE THE BRIGHT SPOT AMONG FIRMS PRODUCING SOLELY FOR EXPORT.

6. EXPORTS

EXPORTS AMOUNTED TO ABOUT \$75 MILLION, UP FROM \$60 MILLION IN 1973. NEVERTHELESS, THE RESULT WAS DISAPPOINTING IN LIGHT OF THE GROWTH DURING 1971-73 AND EARLIER EXPECTATIONS FOR 1974. THE YEAR-TO-YEAR INCREASE, MOREOVER, OBSCURES THE FACT THAT THERE WAS NO GROWTH IN TOTAL EXPORTS AFTER THE FIRST QUARTER OF THE YEAR ALTHOUGH SHRIMP AND FISH EXPORTS REVIVED IN THE LAST QUARTER. DECLINING MARKETS AND FALLING WORLD PRICES FOR VIET NAM'S MAJOR EXPORT COMMODITIES -- FROZEN SHRIMP, LUMBER, AND RUBBER -- WERE THE MAIN FACTORS IN THE RECENT TREND. BUCKING THE TREND, EXPORTS OF COFFEE AND TEA CONTINUED TO GAIN THROUGHOUT THE YEAR. SO ALSO DID HANDICRAFTS AND SOME LIGHT MANUFACTURES, ALTHOUGH ON A MUCH LOWER SCALE OF ACTIVITY.

THE FOLLOWING WERE THE 10 MOST IMPORTANT EXPORTS:

(\$ MILLIONS)

	1973	1974
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1. FROZEN SHRIMP	12.7	24.5
2. RUBBER	12.7	14.4

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3. FORESTRY PRODUCTS	12.1	10.2
4. FISH PRODUCTS (EXCEPT SHRIMP)	1.2	4.9
5. COFFEE	1.8	4.5

6. HANDICRAFTS	1.0	2.6
7. NON-FERROUS SCRAP	5.5	1.8
8. TEA	0.6	1.2
9. DUCK FEATHERS	1.3	0.9
10. CINNAMON	0.9	0.7

NOTE: INCLUDES AN ESTIMATE FOR DECEMBER.

7. IMPORTS AND IMPORT PRICES

IMPORTS IN 1974 REACHED \$855 MILLION, THE HIGHEST LEVEL ON RECORD. THOUGH WELL ABOVE THE \$717 MILLION RECORDED IN 1973, AFTER ADJUSTMENT FOR RISING IMPORT PRICES, REAL IMPORTS DECLINED FROM 1973 TO 1974 BY AN ESTIMATED 22 PERCENT.

THREE SPECIAL FACTORS CREATED THE HIGHER NOMINAL LEVEL OF IMPORTS: A \$52 MILLION RISE IN RICE IMPORTS, CONSEQUENT TO AN AVERAGE 75 PERCENT INCREASE IN U.S.

RICE PRICES; AN \$84 MILLION RISE IN IMPORTS OF POL AND FERTILIZER, REFLECTING THE VERY SHARP RISE IN WORLD PRICES OF THOSE COMMODITIES; AND A \$10 MILLION INCREASE IN PAYMENTS ON AID FREIGHT. GENERAL COMMODITY IMPORTS -A I.E., EXCLUDING AID FREIGHT AND THE BULK ITEMS, RICE, POL, AND FERTILIZER -- WERE SLIGHTLY BELOW 1973.

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CIP IMPORTS OTHER THAN POL AND FERTILIZER ROSE BECAUSE OF HEAVY ARRIVALS OF GOODS ORDERED IN 1972-73 WHOSE SHIPMENT WAS DELAYED BY SUPPLY SHORTAGES IN THOSE YEARS. GVN IMPORTS WERE REDUCED DRASTICALLY, FROM \$281 MILLION IN 1973 TO \$196 MILLION IN 1974. THE REDUCTION COULD BE ASCRIBED PARTLY TO SEVERE CREDIT RESTRICTIONS IMPOSED EARLY IN THE YEAR, BUT DECLINING DEMAND AS A RESULT OF THE DEPRESSED ECONOMIC SITUATION WAS AT LEAST AS MUCH OF A FACTOR. THE LOW LEVEL OF CIP LICENSING, WHICH CONTINUED TO DECLINE INTO THE SECOND HALF OF 1974, WAS FURTHER TESTIMONY TO THE LOW LEVEL OF IMPORT DEMAND.

IMPORT PRICES IN DOLLARS CONTINUED TO RISE AT AN ANNUAL RATE OF ABOUT 50 PERCENT INTO THE FIRST QUARTER OF 1974, BUT FOLLOWING THE DOUBLING OF POL PRICES IN JANUARY THE RATE OF INCREASE BEGAN TO MODERATE. THE ANNUAL RATE OF INCREASE FROM MARCH TO YEAR-END WAS 10 PERCENT. AN INDEX COVERING DOLLAR COSTS OF ALL VIET NAM'S IMPORTS SHOWED 1974 AVERAGING 53 PERCENT ABOVE 1973. APPLIED TO THE NOMINAL VALUE OF IMPORTS FOR 1974, THIS TRANSLATED TO A REAL DECLINE OF 22 PERCENT. REAL IMPORTS IN 1974 WERE AT THEIR LOWEST LEVEL SINCE 1965. IN REAL PER CAPITA TERMS IMPORTS WERE BARELY LIMITED OFFICIAL USE

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ABOVE THE 1964 LEVEL, I.E., SINCE BEFORE THE START OF LARGE-SCALE U.S. INVOLVEMENT.

IMPORTS BY SOURCE OF FINANCING, WERE AS FOLLOWS:

	(\$ MILLIONS)	
	1973	1974
USAID CIP/DLF	253	395
(POL)	(76)	(135)
(FERTILIZER)	(50)	(75)
(OTHER)	(127)	(185)
PL-480	153	201
(RICE)	(87)	(139)
(OTHER)	(66)	(62)
GVN	281	196
AID FREIGHT	30	40
THIRD COUNTRY	0	23
TOTAL	717	855
TOTAL, EXCLUDING POL, FERTILIZER, RICE AND AID FREIGHT	474	466

THE COMPOSITION OF TOTAL IMPORTS CONTINUED TO SHIFT AWAY FROM LESS ESSENTIAL CONSUMER GOODS TOWARDS NEEDED RAW MATERIALS. EARLIER RESTRICTIONS ON THE USE OF IMPORT CREDIT FOR LESS ESSENTIAL GOODS WERE FOLLOWED BY A BAN ON MOST ITEMS ON GVN LISTS "C" AND "D" ON JULY 1. BY YEAR-END, IMPORTS OF GOODS GENERALLY CLASSIFIED AS LESS ESSENTIAL HAD DROPPED TO AN ANNUAL RATE OF ABOUT \$18 MILLION, OR 12 PERCENT OF GVN-FINANCED IMPORTS, EXCLUDING SUGAR AND CEMENT. THE CORRESPONDING RATIO FOR 1973 WAS 23 PERCENT, AND FOR 1972, 39 PERCENT.

8. FOREIGN INVESTMENT

OFFSHORE OIL EXPLORATION ACCOUNTED FOR MUCH OF THE FOREIGN INVESTMENT ACTIVITY, AND MOST OF THE EXCITEMENT, DURING THE YEAR. Pecten Vietnam, a joint venture of Shell Oil (U.S.) and Cities Service, discovered quantities of oil and gas in two test wells drilled in August and September. Both wells were capped and drilling was begun in neighboring areas to determine whether oil exists in commercially exploitable quantities. Meanwhile, Mobil Oil has begun its own drilling operation. The oil companies paid \$30 million to Viet Nam in exploration fees during 1974.

Concluding more than two years of off-and-on negotiations, the French government, several banks, and Polysius, the equipment supplier, agreed in December to finance a \$40 million expansion limited official use

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OF VIET NAM'S HA TIEN CEMENT FACILITY. THE PROJECT WILL EXPAND VIET NAM'S CEMENT OUTPUT BY 700,000 TONS ANNUALLY, BRINGING PRODUCTION TO 80 PERCENT OF THE COUNTRY'S CEMENT REQUIREMENT. ON THE DEBIT SIDE, NEGOTIATIONS WITH HYATT INTERNATIONAL HOTELS FOR CONSTRUCTION OF A LUXURY HOTEL IN SAIGON WERE POSTPONED INDEFINITELY IN NOVEMBER WHEN COMPANY OFFICIALS AND THE GOVERNMENT FAILED TO AGREE ON TAX CONSIDERATIONS.

APART FROM THESE MAJOR DEVELOPMENTS, NEW INVESTMENT HAS CONSISTED OF A NUMBER OF SMALL FIRMS, MOSTLY IN LABOR-INTENSIVE, LIGHT MANUFACTURING PROJECTS. A TOTAL OF 66 PROJECTS VALUED AT \$6.9 MILLION RECEIVED APPROVAL IN 1974.

OPIC GUARANTEES FOR AMERICAN INVESTORS WERE REINSTATED ON AUGUST 27, 1974; THE EXPORT-IMPORT BANK REVISED PAST POLICY AND AGREED TO CONSIDER FINANCING PROPOSALS; AND THE GVN DECREED ESTABLISHMENT OF VIET NAM'S FIRST EXPORT PROCESSING ZONE ON MAY 29, 1974. SOME SIX FIRMS HAVE APPLIED FOR OPIC COVERAGE WHICH UNDER THE TERMS OF THE NEW AGREEMENT MAY COVER UP TO \$5 MILLION IN A SINGLE INVESTMENT. ONE LOAN APPLICATION HAS BEEN SUBMITTED TO THE EX-IM BANK TO FINANCE EQUIPMENT FOR THE EPZ AND A PROJECT TO BUILD AN EARTH SATELLITE GROUND STATION WILL BE SUBMITTED IN THE FUTURE. THE EPZ, AND THREE ARE INSTALLING THEIR EQUIPMENT. THE PROJECTS, ALL JOINT VENTURES WITH VIETNAMESE AND FOREIGN CAPITAL, WILL PRODUCE GARMENTS, KNITWARE, WORK GLOVES AND FURNITURE.

9. BALANCE OF PAYMENTS

ALMOST ALONE AMONG NON-OPEC COUNTRIES, VIET NAM'S FOREIGN EXCHANGE RESERVES ROSE DURING 1974. THE INCREASE, ESTIMATED AT \$41 MILLION, OCCURRED DESPITE \$59 MILLION OF ADDITIONAL EXPENDITURES ON POL. IT COULD BE ATTRIBUTED TO GVN AUSTERITY MEASURES WHICH REDUCED IMPORTS (SEE SECTION 7) AND TO A HIGHER THAN EXPECTED INFLOW OF INVISIBLE RECEIPTS. INVISIBLE EARNINGS ARE ESTIMATED AT \$221 MILLION, COMPARED TO \$143 MILLION IN 1973. OF THE 1974 TOTAL \$30 MILLION CONSISTED OF OIL CONCESSION FEES (\$17 MILLION IN 1973) AND \$54 MILLION OF CURRENCY NOTES (\$20 MILLION IN 1973). THE CURRENCY NOTES WERE BELIEVED TO HAVE COME LARGELY FROM LOCAL BUSINESSMEN HARD PRESSED FOR

WORKING CAPITAL UNDER EXISTING THIGHT MONEY CONDITIONS.

VIET NAM'S FOREIGN EXCHANGE ASSETS AT YEAR END WERE PROJECTED
AT \$251 MILLION, BROKEN DOWN AS FOLLOWS:

(\$MILLIONS)

OFFICIAL RESERVES

FOREIGN EXCHANGE 166.0

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GOLD (AT \$42/OZ.) 29.0

SDRS 23.8

IMF GOLD TRANCHE 19.0

BLOCKED FR. FRANCES 7.6

COMMERICAL BANK HOLDINGS

OF FOREIGN EXCHANGE 6.0

TOTAL RESERVES 251.4

10. MONEY SUPPLY AND PRICES

A. MONEY SUPPLY -- MONEY SUPPLY, NARROWLY DEFINED AS DEMAND DEPOSITS
PLUS CURRENCY IN CIRCULATION ROSE FROM FN\$268.1 BILLION TO A
PROJECTED VN\$322 BILLION AT YEAR-END 1974, OR AN INCREASE OF 20 PER-
CENT. DEFINED TO INCLUDE SAVINGS DEPOSITS, THE INCREASE WAS FROM
VN\$360.3 BILLION TO A PROJECTED VN\$485 BILLION, OR 35 PERCENT. GIVEN
THE TENDENCY FOR SAVINGS DEPOSITS TO BECOME MORE LIQUID, THE TRUE

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NSAE-00 RSC-01 TRSE-00 AGR-05 COME-00 FRB-01 FEA-01

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INFO AMEMBASSY LONDON

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MEASURE OF MONETARY PRESSURE ON THE ECONOMY PROBABLY LIES SOMEWHERE
IN BETWEEN.

B. PRICES -- THE USAID SAIGON INDEX OF CONSUMER PRICES ROSE
DURING THE YEAR BY 41 PERCENT, A MARKED IMPROVEMENT ON THE 1973
INCREASE OF 65 PERCENT. THE YEAR BEGAN WITH PRICES RISING VERY
SHARPLY UNDER THE INFLUENCE OF THE OPEC-INDUCED POL PRICE INCREASES
OF NOVEMBER 1973 AND JANUARY 1974. THE USAID CPI ROSE BY 21 PERCENT
DURING THE FIRST QUARTER ALONE. THEREAFTER, WITH IMPORT PRICES IN
GENERAL RISING MORE SLOWLY (SEE SECTION 7) AND RETAIL POL PRICES
HOLDING UNCHANGED AT THEIR JANUARY LEVELS, THE ADVANCE IN CONSUMER
PRICES BECAME MUCH MORE MODERATE. FROM THE END OF MARCH THROUGH
DECEMBER PRICES ROSE AT AN ANNUAL RATE OF 22 PERCENT, AND THE INCREASE

FROM THE END OF AUGUST TO YEAR-END WAS AT AN ANNUAL RATE OF ONLY
9 PERCENT.

NON-FOOD PRICES ROSE BY 47 PERCENT IN 1974 WHILE FOOD PRICES
ROSE BY 38 PERCENT. IN PART, THE HIGHER RISE IN NON-FOODS REFLECTED
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THE VERY SHARP INCREASE IN POL PRICES IN JANUARY, BUT AN EQUALLY
IMPORTANT FACTOR WAS THE RELATIVELY SMALL INCREASE IN RICE PRICES
WHICH SERVED TO RESTRAIN THE FOOD GROUP AS A WHOLE.

THERE FOLLOWS A LISTING OF KEY INDIVIDUAL ITEMS IN THE INDEX:

	PERCENT INCREASE DEC. 1973 TO DEC. 1974
IMPORTED ITEMS	
KEROSENE	1106
GASOLINE	88
SUGAR	88
ELECTRICITY	85
COOKING OIL	54
CONDENSED MILK	53
LOCAL ITEMS	
NUOC MAM	67
PORK	45

CHICKEN	33
RICE	24
RISH	17
DALAT CABBAGE	-17

11. BANKING ACTIVITY

A. CREDIT

DURING 1974, COMMERCIAL BANK CREDIT OUTSTANDING ROSE FROM VN\$149.7 BILLION TO ABOUT VN\$185 BILLION, OR 24 PERCENT. CREDIT EXTENDED BY THE AGRICULTURAL DEVELOPMENT BANK AND THE RURAL BANKING SYSTEM EXPANDED BY ABOUT VN\$35 BILLION, OR 117 PERCENT ABOVE THE END-1973 LEVEL, AND CREDIT OUTSTANDING AT THE TWO INDUSTRIAL DEVELOPMENT BANKS ROSE BY ABOUT VN\$10 BILLION, OR 100 PERCENT.

THIS WAS THE FIRST YEAR IN WHICH DEVELOPMENT BANK CREDIT EXPANDED FASTER THAN COMMERCIAL BANK CREDIT, REFLECTING THE PRIORITY BEING ACCORDED ECONOMIC DEVELOPMENT AND AGRICULTURAL CREDIT IN PARTICULAR. AT THE SAME TIME, COMMERCIAL BANK LENDING ACTIVITY WAS LIMITED OFFICIAL USE

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RESTRAINED BY THE BANKS' RELUCTANCE TO UNDERTAKE NEW LOANS IN THE UNCERTAIN BUSINESS CLIMATE. INSTEAD, BANKS ADDED SOME VN\$68 BILLION TO THEIR INVENTORIES OF TREASURY BILLS WHOSE AFTER-TAX RETURN WAS GREATER THAN THE PRIME LENDING RATE, THEREBY DOUBLING THEIR HOLDINGS OVER THE COURSE OF THE YEAR.

THE INCREASE IN COMMERCIAL BANK CREDIT WAS NOWHERE NEAR SUFFICIENT TO ACCOMMODATE THE RISE IN PIASTER VALUE OF IMPORTS, LET ALONE OTHER CREDIT REQUIREMENTS. BUSINESS LIQUIDITY EASED, HOWEVER, AS ADVANCE DEPOSITS WERE REPAYED BY THE BANKING SYSTEM (OWING NOT SO MUCH TO A RELAXATION OF ADVANCE DEPOSIT REQUIREMENTS AS TO A DECLINING RATE OF IMPORT LICENSING AND, AFTER JULY 1, THE BANNING OF MOST NON-ESSENTIAL IMPORTS). NEVERTHELESS, CREDIT AT YEAR-END WAS EXPENSIVE AND HARD TO COME BY SO THAT MANY FIRMS FACED FINANCIAL DIFFICULTIES AS THEY STILL HELD LARGE STOCKS THAT WERE LARGELY UNSALEABLE UNDER EXISTING CONDITIONS.

THE FOLLOWING IS A SUMMARY OF CREDIT ACTIVITY DURING 1974:

CHANGE IN CREDIT OUTSTANDING

(VN\$ BILLIONS)
1973 1974 (PROJ)

A. COMMERCIAL BANKS

1. CREDIT 61 35

2. CHANGE IN ADVANCE DEPOSITS (INC. -)	-47	42
3. NET CHANGE IN LIQUIDITY TO BORROWERS	14	77

B. DEVELOPMENT BANKS

1. ADB AND RURAL BANKS	14	35
2. INDUSTRIAL BANKS		
(IDB AND IDEBANK	4	10
3. TOTAL DEVELOPMENT CREDIT	18	45
 TOTAL CREDIT	 79	 80

(A.1 PLUS B.3)

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B. SAVINGS

THE COUNTERPART TO THE LARGE INCREASE IN TREASURY BILL HOLDINGS OF THE BANKS MENTIONED ABOVE WAS AN EXCEPTIONALLY RAPID RISE IN SAVINGS AND TIME DEPOSITS AT THE COMMERCIAL BANKS. SAVINGS DEPOSITS ROSE IN 1974 FROM VN\$92.2 BILLION TO ABOUT VN\$163 BILLION, OR 76 PERCENT. TERM DEPOSITS ROSE FROM VN\$59.3 BILLION TO ABOUT VN\$84 BILLION, OR 41 PERCENT. TERM DEPOSITS BEGAN TO ACCOUNT FOR AN INCREASING SHARE OF THE TOTAL IN THE THIRD QUARTER, PERHAPS BECAUSE BY THEN INFLATION HAD CLEARLY SLOWED BELOW THE RATE THEY EARNED.

12. GOVERNMENT EXPENDITURES

GOVERNMENT EXPENDITURES IN 1974 AMOUNTED TO ABOUT VN\$720 BILLION, OR 40 PERCENT ABOVE THE 1973 LEVEL. MORE THAN 90 PERCENT OF THAT TOTAL COVERED "CURRENT" OPERATIONS, LEAVING ABOUT 7 PERCENT FOR DEVELOPMENT. SECURITY (DEFENSE MINISTRY AND POLICE) COMPRISED VN\$347 BILLION, OR 48 PERCENT OF THE TOTAL. ANOTHER 33 PERCENT WENT FOR CIVIL OPERATIONS, MAINLY PUBLIC SERVANT SALARIES AND TRANSFERS TO REFUGEES AND VETERANS; VN\$70 BILLION, OR 10 PERCENT, REPRESENTED NET FINANCING OF NFA RICE OPERATIONS, HALF FOR THE RICE SUBSIDY AND HALF FOR STICK BUILD-UP AND MISCELLANEOUS EXPENDITURES; THE REMAINING 2 PERCENT INCLUDED EXPORT AND FERTILIZER SUBSIDIES.

WITH 1.4 MILLION SOLDIERS AND CIVIL SERVANTS IN GOVERNMENT EMPLOY, THE PAYROLL CONSITITUTED THE LARGEST SINGLE BUDGET LINE ITEM -- 47 PERCENT OF TOTAL OUTLAYS. EFFECTIVE JUNE 1, GOVERNMENT WORKERS RECEIVED AN AVERAGE 23 PERCENT INCREASE IN TOTAL COMPENSATION, BUT THAT STILL LEFT REAL GOVERNMENT WAGES IN 1974 ABOUT 5 PERCENT BELOW

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THE ALREADY INADEQUATE 1973 AVERAGE.

IN AN EFFORT TO DEAL WITH RISING UNEMPLOYMENT, THE GOVERNMENT EXPANDED ITS SHORT-TERM WORK PROGRAMS LAST YEAR. IN THE SAIGON AREA 7,000 PEOPLE WERE EMPLOYED IN PUBLIC SERVICE PROJECTS SIMILAR TO THE SUCCESSFUL DANANG EFFORT (AGENCY FOR DEVELOPMENT OF THE DANANG AREA, OR ADDA) THAT BEGAN IN 1972. BY YEAR'S END, TOTAL EMPLOYMENT IN JOB PROGRAMS HAD REACHED 25,000 THROUGHOUT MR 1, 2, AND 3. THE GOVERNMENT WAS PLANNING FURTHER EXPANSION IN 1975, WITH EMPHASIS ON SMALL LABOR-INTENSIVE DEVELOPMENT PROJECTS.

GOVERNMENT EXPENDITURES OVER EACH OF THE PAST THREE YEARS HAVE REPRESENTED ABOUT A THIRD OF GNP. AS THE NVA CONTINUES ITS EFFORTS AT MILITARY CONQUEST OF RVN, THE GOVERNMENT NECESSARILY MUST CONTINUE TO COMMAND A SUBSTANTIAL PORTION OF DOMESTIC RESOURCES FOR ITS CURRENT OPERATIONS. IN ITS 1975 PLANNING, THE GOVERNMENT HAS INCREASED PROJECTED INVESTMENT-TYPE EXPENDITURES, WHILE ATTEMPTING TO HOLD THE LINE ON CIVIL AND SECURITY FUNCTIONS. OBVIOUSLY, ITS ABILITY TO DO THE LATTER WILL DEPEND ESSENTIALLY ON NVA ACTIONS

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OUTSIDE ITS CONTROL.

13. GVN REVENUES

TOTAL GVN REVENUES WERE ABOUT VN\$343 BILLION IN 1974, COMPARED TO VN\$246 BILLION IN 1973. DOMESTIC REVENUES WERE ABOUT VN\$296 BILLION, OF WHICH AN ESTIMATED VN\$251 BILLION WERE COLLECTED BY THE DIRECTORATE GENERAL OF TAXATION (DGT). THE YEAR-TO-YEAR INCREASE IN DGT REVENUES AMOUNTED TO SOME 49 PERCENT, WHICH COMPARES WITH AN INFLATION RATE, SIMILARLY MEASURED, OF 57 PERCENT. THUS, DGT REVENUES DECLINED BY 5 PERCENT IN REAL TERMS. AT FIRST SIGHT THIS PERFORMANCE SEEMS DISAPPOINTING BUT MUST BE SEEN AS A RESULT OF THE COUNTRY'S ECONOMIC DIFFICULTIES, ESPECIALLY THE DECLINE IN THE INDUSTRIAL SECTOR ON WHICH THE BULK OF REVENUES DEPEND. IMPORT REVENUES ALSO DECLINED, FROM VN\$54 BILLION IN 1973 TO VN\$46 BILLION IN 1974, REFLECTING THE REDUCED VOLUME OF HIGHER TAAD, LUXURY IMPORTS.

14. BUDGET FUNDING

TAX COLLECTION COVERED 48 PERCENT OF TOTAL EXPENDITURES, THE SAME LEVEL AS 1973. OVERALL BUDGET FUNDING IN 1974 LOOKED APPROXIMATELY AS FOLLOWS (VN\$ BILLION):

TOTAL EXPENDITURES		720
TAX REVENUES	343	
NATIONAL BANK ADVANCES		29
TREASURY BILL SALES	90	
USAID COUNTERPART TRANSFERS		258
TOTAL RECEIPTS	720	

THE MOST NOTABLE DEVELOPMENT ON THE FUNDING SIDE WAS THE SHARP RISE IN TREASURY BILL SALES (VN\$18 BILLION IN 1973), ESPECIALLY TO COMMERCIAL BANKS, AND A CONSEQUENT DECLINE IN NATIONAL BANK ADVANCES TO THE TREASURY.

15. ECONOMIC POLICY

AS PART OF A MAJOR CABINET RESHUFFLE, MINISTER OF TRADE AND INDUSTRY, NGUYEN DUC CUONG, AND MINISTER OF FINANCE, CHAU KIM NHAN, SUBMITTED THEIR RESIGNATIONS IN OCTOBER, JUST ONE YEAR AFTER THEY LIMITED OFFICIAL USE

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HAD TAKEN OFFICE. A NEW CABINET WAS FORMED IN NOVEMBER FEATURING, FOR THE FIRST TIME SINCE 1967, A SUPER-MINISTER FOR ECONOMIC AFFAIRS. DR. NGUYEN VAN HAO WAS GIVEN THE TITLE OF DEPUTY PRIME MINISTER FOR ECONOMIC DEVELOPMENT AND CONCURRENTLY MINISTER OF AGRICULTURE AND INDUSTRY. REPORTING TO HIM ARE THE MINISTERS OF PLANNING (UPGRADED FROM A COMMISSARIAT-GENERAL), FINANCE, AND TRADE AND SUPPLY (THE FORMER MINISTRY OF TRADE AND INDUSTRY WITHOUT ITS INDUSTRY FUNCTION),

AS WELL AS VICE MINISTERS OF INDUSTRY AND AGRICULTURE. HOLDOVERS FROM THE PREVIOUS CABINET WERE MINISTER OF PLANNING NGUYEN TIEN HUNG,

AND GOVERNOR OF THE NATIONAL BANK, LE QUANG UYEN.

SIGNIFICANT PROGRESS WAS MADE IN ECONOMIC POLICY DURING 1974. THE FOLLOWING WERE THE MAJOR DEVELOPMENTS:

A. EXCHANGE RATE -- THE GVN CONTINUED THE POLICY, IN EFFECT SINCE 1971, OF FREQUENT, SMALL ADJUSTMENTS IN THE RATE. THE PIASTER WAS DEVALUED FROM 550 TO THE DOLLAR AT THE OUTSET OF THE YEAR TO 685 AT YEAR-END, AN OVERALL MOVE OF 24.5 PERCENT.

B. IMPORT RESTRICTIONS -- NUMEROUS RESTRAINTS AND OUTRIGHT RESTRICTIONS WERE IMPOSED. THE EXCHANGE RATE GUARANTEE WAS ELIMINATED:

IN FEBRUARY FOR CIP IMPORTS AND IN MARCH FOR GVN IMPORTS. IN MARCH BANKS WERE PROHIBITED FROM FINANCING MORE THAN A SHARE OF AN IMPORT TRANSACTION: 70 PERCENT OF CIP IMPORTS, 50 PERCENT OF ESSENTIAL GVN IMPORTS, ZERO PERCENT OF GVN LESS ESSENTIAL IMPORTS. LATER, IN JULY, MOST LESS ESSENTIAL IMPORTS WERE BANNED ALTOGETHER.

C. CREDIT MEASURES -- IN FEBRUARY SPECIFIC FINANCING LIMITS WERE PLACED ON WORKING CAPITAL AND OVERDRAFT LOANS TO IMPORTERS (VN\$100,000), AND MOST CURRENT ACCOUNT LOANS (VN\$3,000,000).

D. INTEREST RATES -- INTEREST RATES WERE RAISED BY 2 PERCENT ON SAVINGS DEPOSITS, TERM DEPOSITS, AND TREASURY BILLS ON JULY 1. AT THE SAME TIME, LENDING RATES ROSE BY ABOUT 3 PERCENT.

E. PUBLIC SECTOR WAGES -- A WAGE INCREASE, AVERAGING ABOUT 23 PERCENT ON TOTAL COMPENSATION, TOOK EFFECT IN JULY, RETROACTIVE TO JUNE 1.

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F. RICE -- THE OFFICIAL SELLING PRICE OF RICE WAS RAISED IN TWO STEPS, FROM 140 PIASTERS/KILO TO 185; AND THE RICE ALLOWANCE WHICH PERMITS EACH GOVERNMENT EMPLOYEE TO BUY 21 KILOS A MONTH WAS RAISED CORRESPONDINGLY.

G. FERTILIZER -- A FERTILIZER SUBSIDY WAS IMPLEMENTED IN SEPTEMBER. THE SUBSIDY, DESIGNED TO KEEP THE PRICE OF A KILO OF FERTILIZER AT LESS THAN TWICE THAT OF A KILO OF UNMILLED RICE, RESULTS IN A CURRENT AVERAGE DELTA PRICE OF ABOUT VN\$200/KILO. THE PRICE TO THE FARMERS WERE THERE NO SUBSIDY AND A SMOOTHLY FUNCTIONING FREE MARKET WOULD BE ABOUT VN\$430/KILO.

H. EXPORT SUBSIDY -- THE EXPORT SUBSIDY, WHICH IS STATED IN TERMS OF AN "INTEREST RATE EQUIVALENT" TIED TO THE CURRENT PRIME

RATE UNDERWENT TWO ADJUSTMENTS DURING THE YEAR. ON MARCH 22 THE RATE WAS RAISED FROM AN EFFECTIVE 6.5 PERCENT TO 13 PERCENT FOR THOSE PRODUCTS PARTICULARLY AFFECTED BY THE POL PRICE INCREASES: I.E., FISH PRODUCTS, LOGS, TEA AND COFFEE, RUBBER TIRES, GLASS AND GLASS-WARE. THE BASIC RATES WERE ADJUSTED TO 10 PERCENT AND 15 PERCENT ALONG WITH THE INTEREST RATE INCREASE IN JULY.

I. POL PRICES -- PRICES WERE RAISED IMMEDIATELY IN RESPONSE TO THE RISE IN WORLD PRICES, SHARPLY REDUCING CONSUMPTION AS DESCRIBED

IN SECTION 3 ABOVE.
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